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Roger Huyssen's cover painting depicts some of the industries that fit together to make up the U.S. economy. An account of how the recovery is changing this topography begins on page 60.

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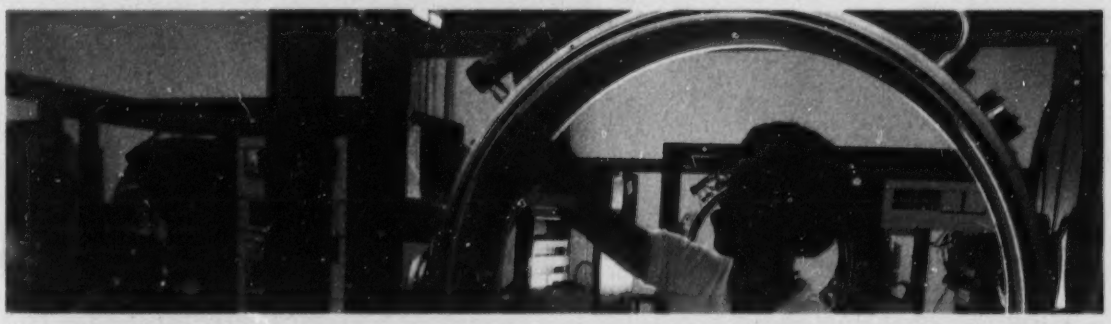

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POLICY/STEVEN FLAX

THE CRACKDOWN ON COLLUDING ROADBUILDERS

■ Like a giant bulldozer, the Antitrust Division of the U.S. Department of Justice is plowing through the roadbuilding industry, turning up evidence of bid rigging with every scoopful. It's the largest single investigation in the division's history, and the first time the targets of such a major effort have been small businesses instead of giants like IBM or AT&T. Hundreds of contractors have been convicted, many receiving prison terms. Scores more will be indicted. Bid rigging apparently has cost taxpayers at least several hundred million dollars a year.

No antitrust campaign has affected the lives of so many businessmen. Launched in the early Seventies, the federal juggernaut has picked up momentum. Since the end of 1979, federal prosecutors in 20 states have obtained 400 criminal convictions resulting in fines of approximately $50 million and 141 jail sentences amounting to more than 46 years of actual incarceration so far.

NOW THE PROBE is expanding, boosted by contractors who are cooperating with investigators in hopes of receiving lighter sentences. Fourteen new investigations have opened in the last year. The division is presenting evidence of conspiracies to grand juries in 20 states, and federal investigators are going into New York, New Jersey, New Mexico, North Dakota, Ohio, and Rhode Island, among others. "Every time we turn around, somebody is rigging a bid with somebody else," says John J. Hughes, chief of the Antitrust Division's Middle Atlantic office. "We'll be bringing a massive number of cases in the next few years."

They are also looking beyond paving contracting. The investigation has widened to include bid rigging in such activities as electrical contracting, water and sewer projects, bridges and tunnels, and sales to states and the federal government of asphalt and other bituminous emulsions, plumbing supplies,

RESEARCH ASSOCIATE *Wilton Woods*

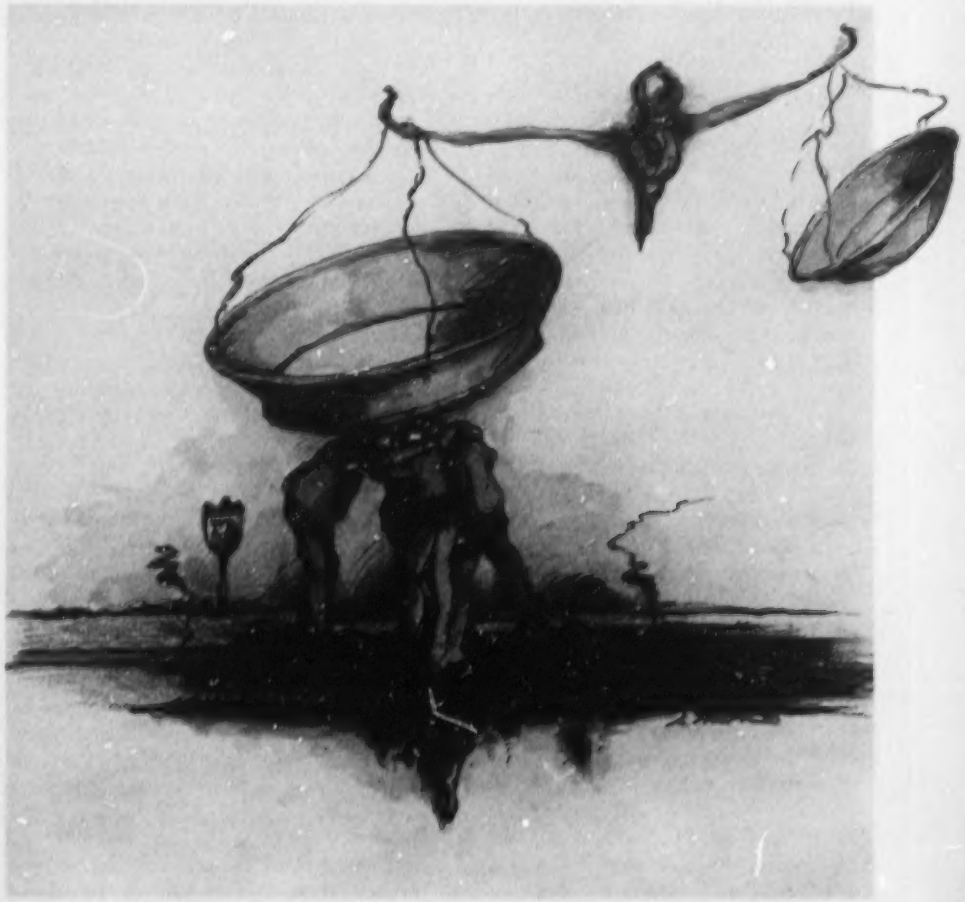

ILLUSTRATION BY GEOFFREY MOSS

and equipment for highway signals. Some investigators are looking into deals to purchase school buses and ambulances.

Though nobody can pinpoint the total cost to taxpayers, construction costs in individual states dropped dramatically when the feds moved in. Before a grand jury began investigating bid rigging in Georgia in 1980, construction costs of road projects were running 10% over the estimates of the state's engineering department. By the first half of 1981, when bid-rigging investigations were in full swing, roadbuilding costs had dropped 10% below engineering estimates. "We saw an immediate drop of bids after the investigations started," says Ron Edmondson, an engineer with the Georgia Department of Transportation. In North Carolina construction cost indexes peaked in 1980, right around the time bid rigging was exposed in the state. Though the indexes are rising again, they are still lower than they were three years ago. At the federal level Joseph Welsch, inspector general of the Department of Transportation, says a recent DOT analysis of the $10.5 billion spent annually on the Federal Highway Program shows that for a variety of reasons the government paid between 5% and 10% more than it should have. At least half of that overcharging, he thinks, can be attributed to bid rigging.

FEDERAL INVESTIGATORS believe bid rigging has been going on in some areas for 30 or 40 years. "We've convicted individuals who told us their grandfathers were in it," says Joseph H. Widmar, director of operations at the Antitrust Division. "It has been a way of life." Adds Gregory Simmons, a special agent of the Department of Transportation, "I have no doubt that it is going on everywhere."

Considering the pervasiveness of the collusion and the dimensions of the overcharges, the wonder is that state officials could have overlooked it. But federal investigators seem satisfied that most didn't know what was going on. "This is the opposite of a 'smoking gun' sort of crime," says Welsch. "It was so embedded in the system, such common practice, that it was invisible."

The bureaucratic mentality seems partly to blame. Most state laws governing the letting of contracts are designed to prevent malfeasance by state officials, not bidders. If highway departments got the required number of bids for every job and the bids weren't too much over the state engineer's estimate, well then, that was honest bidding.

Federal investigators also point out that a well-run conspiracy is the hardest crime to detect. Moreover, most state or county highway officials had been dealing with the bid

"It's like you hear that the minister is dipping into the collection plate after service. At first you can't believe it."

riggers for a long time and regarded them as respected community members who had never been involved in anything illegal. Some conspirators were heads of charities or of their local contractors' associations. One convicted contractor had been head of the law enforcement committee of his contractors' association. "It's like you hear that the minister is dipping into the collection plate after service," says Walter McFarlane, deputy attorney general of Virginia. "At first you can't believe it."

Still, some state officials ignored obvious evidence. For example, certain states require bidders to file sworn noncollusion affidavits along with their bids. In some cases contractors designated to lose would just sign the bottom of the affidavits and turn them over to the winning bidder to fill out and hand in. Anyone taking the trouble to look would have easily noticed that all the affidavits were written with the same handwriting and same pen, both of which differed from the signatures.

According to federal investigators, here's how the bid rigging worked in cases prosecuted so far. They are convinced that the general pattern persists in many parts of the country. Most state highway departments or county authorities take bids for new projects at regularly scheduled meetings called lettings. In the conspiracy cases, dishonest contractors got together the night before and split the jobs among themselves, at prices that they—not the state—found attractive.

As befits a white-collar crime, the bid rigging didn't ordinarily involve meetings in back alleys or at rest stops on the interstate. Most scheming occurred at pleasant hotels. Often local contractors' associations threw lavish cocktail parties at the hotels the night before lettings, and, federal investigators report, some highway departments would bring over the locked bid box and set it up right on the bar. One group of electrical contractors did their bid rigging at the august Duquesne Club, the exclusive bastion of the Pittsburgh establishment.

In most cases one contractor convinced the others that he needed a certain job. The losers would then post higher or "complementary" bids in return for payoffs, subcontracting work, or reciprocation on bids on other jobs. The winner would decide how much profit he wanted, make his bid, and tell the others the number to be above.

The process often got pretty mechanical. Sometimes contractors divided their region into exclusive territories and *never* competed. They met only to learn the complementary bids they had to make on each other's projects to make the bids on all the jobs look competitive. The only snag occurred when an occasional contractor tried to submit a legitimate bid. He was usually cowed into cooperating by threats. For example, one honest contractor reported to a federal prosecutor that he was told by several conspirators, "If you don't go along we can always move an asphalt plant into your town and take turns bidding below cost against you. Pretty soon we won't have you to worry about." Understandably, most small businessmen would rather forgo bidding on one paving job than face extinction.

BID RIGGING IN THE U.S. is hardly new; one dispute between two colluding roadbuilders landed in court in 1811. But hardly anybody had looked at bid rigging as more than an occasional problem. The current probe didn't start as part of any grand design. In 1971 an investigative reporter for the *St. Louis Post-Dispatch* named Robert Collins uncovered evidence of bid rigging in almost $50 million of construction work on the Adlai E. Stevenson Expressway from Chicago to Springfield, Illinois.

After the *Post-Dispatch*'s series of articles, Collins and a contractor who had been the reporter's source turned over the evidence to Richard J. Braun, then an attorney in the Antitrust Division's Midwest office. (Braun has since gone into private law practice and is now preparing to defend contractors accused of bid rigging.) Braun successfully prosecuted the cases and began following leads into other states. Says John Hughes, one of the three or four investigators then working with Braun, "It was like a kitten pulling a ball of yarn. It unraveled and we've just followed it from one state to the next." In Tennessee, Braun and his team prosecuted 44 cases and nailed, among others, the brother and uncle of former Governor Ray Blanton.

Federal prosecutors have pushed for big fines and maximum jail sentences. They real-

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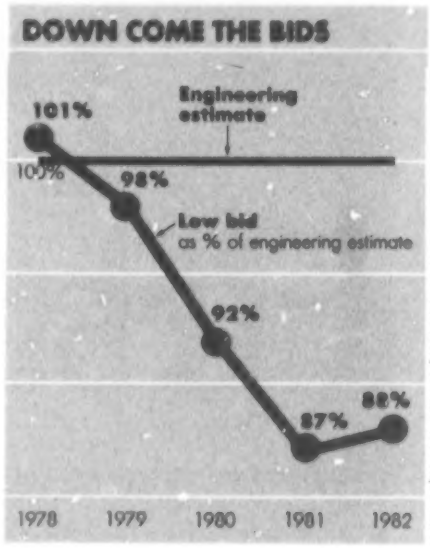
ize that bid rigging flourished for so long not only because the chance of getting caught was remote but because the penalties were minimal: a bid rigger could expect a penny ante fine plus a suspended sentence, at most. Lately fines have ranged all the way up to the total of $7.5 million levied against Ashland-Warren Inc. of Atlanta, a road-paving subsidiary of Ashland Oil Inc. It was the largest antitrust penalty ever assessed. Contractors are also barred from bidding on state contracts for a period of time. Furthermore, guilty pleas or convictions in federal cases leave both individuals and corporations open to civil suits in which state authorities can recover treble damages, enough to bankrupt some contractors.

Still, says one federal investigator, "for some companies, the fines are just a cost of doing business." Prior to the bid-rigging cases less than 10% of those convicted of violating the Sherman Antitrust Act served terms in federal prisons. About 75% of the bid riggers have gone to prison. "Businessmen think that, if they are caught, all they have to do is say, 'I'm sorry,'" says Carl Mullis, an attorney in the Antitrust Division's Atlanta office. "That's not enough for us. We are going to press for more and longer prison sentences." Though several contractors are serving the maximum three-year sentence, the average time bid riggers have spent behind bars is about five months.

The human costs go well beyond the time in prison. Men who were prominent businessmen and respected parents have had to face their communities and their children. One man, a deacon in his church, had to endure explaining his fraud to his congregation. Another, a man who had married the boss's daughter, tried to excuse himself by saying that he had learned bid rigging from his father-in-law. His children turned against him, refusing to believe that their grandfather could have engaged in such activity.

SOME CONVICTED contractors say that, besides greed and security, their motive for going along with conspiracies was acceptance. They were self-made men, and being asked to join the conspiracy by executives of bigger, well-known companies meant to them that they had become powers in their industry. In some cases the ignominy has followed them to the grave. When one of the Stevenson Expressway conspirators died recently, his obituary in the *Chicago Tribune* was headlined "George Krug; Convicted of Bid Rigging in '77."

As part of the penalty for a bid-rigging conviction, companies are often prevented from bidding on public jobs for two years or more.



As prosecution of bid rigging has gained momentum across the nation, average costs of federal highway projects have fallen. The 101% figure for 1978 is more out of line than it seems because engineering estimates had been inflated by past bid rigging.

Some have grown too big to stay in business paving driveways and parking lots, and have had to sell off their assets to competitors. Some executives have in effect been prevented from ever working again in their industry. Even if the companies can survive, they find the competitive environment far more cutthroat than before when they resume bidding for public jobs.

Also, companies that relied on bid rigging tended to lose their competitive edge. Inefficient companies remained in business because more efficient ones were obliged to complement their inflated bids. Sometimes the whole competitive process got stood on its head. In one instance a corporate chief executive sent his assistant to participate in bid rigging on two construction projects. By some miscalculation the assistant won both jobs. When he got back to his office, he was demoted—for doing what would have won him congratulations in a normal situation. The ultimate in anticompetitiveness may have been accomplished by a contractor from North Carolina who let his business dwindle to almost nothing because he was able to subsist entirely on payoffs he demanded to not bid on projects.

State officials have now started to scrutinize bids more intensively. They have also tightened bidding procedures and stopped issuing the lists of contractors interested in projects that enabled conspirators to contact one another. Some states are routinely running computer analyses to detect suspicious

patterns, and some have stopped handing out their engineers' estimates. Another sign of the times: During the summer of 1982, when Walter McFarlane, the Virginia deputy attorney general who was active in fighting bid rigging in his state, ran a seminar for other state officials on detecting highway bid rigging, the crowd was so great that the seminar was forced to change hotels three times to get a big enough room.

The federal government is taking further measures to combat bid rigging. Besides beefing up the number of law enforcement agents, it has established a confidential hotline for bid-rigging allegations. It has also required that a statement of the penalties for bid rigging be handed out to contractors bidding on government jobs. The Department of Transportation is barring convicted contractors from bidding not only on road jobs, but also on such things as mass transit projects. Some top government officials would like to bar convicted contractors from working on any future federal projects, an idea investigators enthusiastically endorse. "Debarment: that's what they fear the most," says DOT's Gregory Simmons. "A $1-million fine is pocket change to some of these corporations. But their livelihood is made with federal and state contracts."

AS THE EFFECTS of the prosecution have become more evident, some industry spokesmen have claimed that the jail sentences and debarments are destroying the nation's roadbuilding industry and actually decreasing competition. But federal officials dispute the industry allegations. Though easy entry into the business makes counting contractors difficult, only a small fraction of the nation's roadbuilders have been convicted. According to Don Ivers, chief counsel of the Federal Highway Administration, whenever several contractors have been convicted in an area, "we have found that the level of competitors seems to fill right back up pretty quickly."

If anything, competition has increased. In 1978 there were, on average, 3.4 bidders for every federally aided highway construction job. Now the figure is 5.3. "We've seen many more contractors coming into the marketplace," says the Department of Transportation's Joseph Welsch, "because it's a free market again and a lot more contractors feel they might have a shot at it now."

■ The lesson for businessmen in the highway bid crackdown is that, one way or another, avoiding the competitive hurly-burly eventually hurts. Jail is only one possibility. Long-term insulation from the fray can lead to terminal management flabbiness. ■

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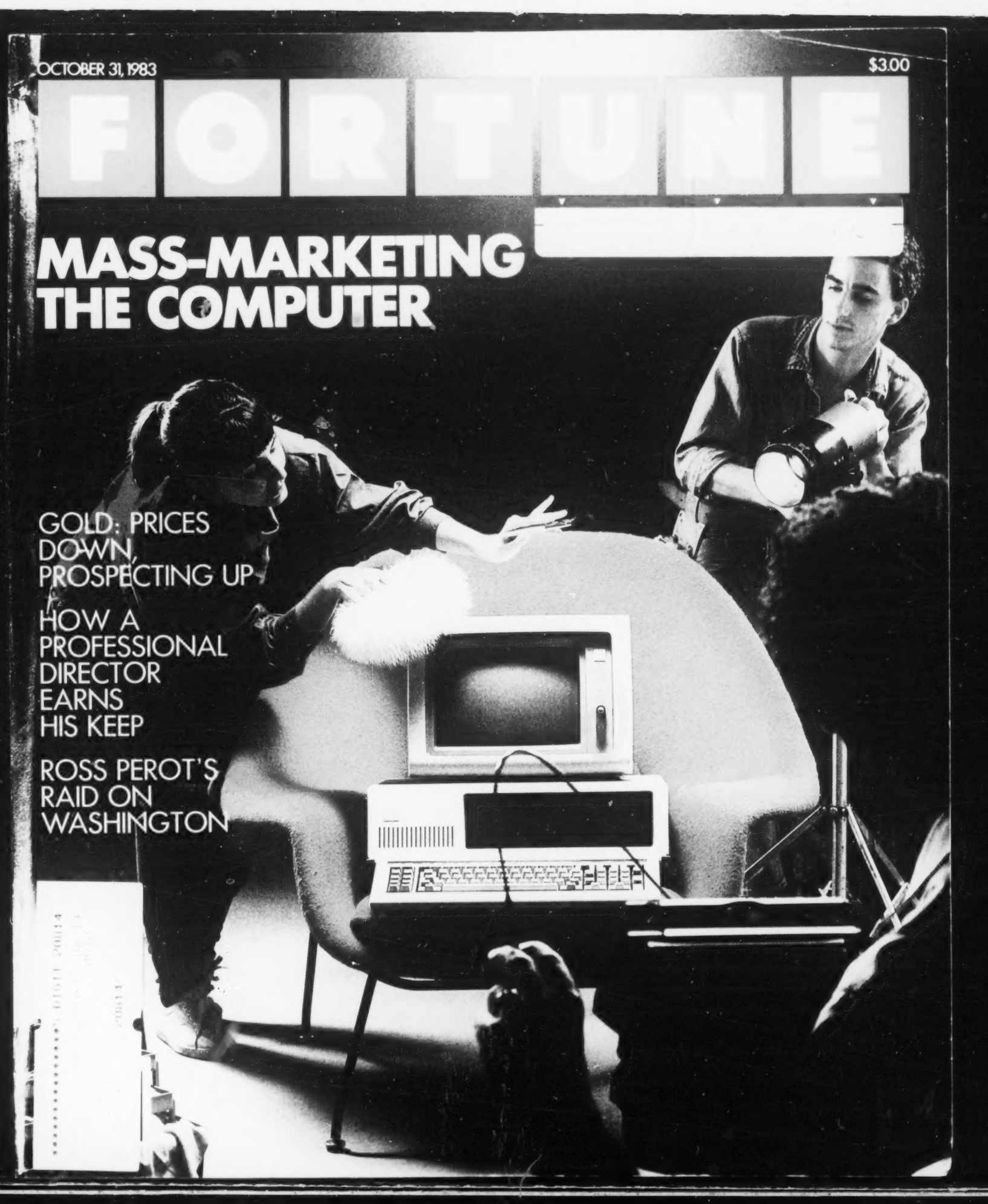

Thanks to skyrocketing ad budgets, the personal computer is the newest media star, as Neil Selkirk's cover photograph suggests. But many consumers still find it mystifying. The marketing challenge is examined on page 60.

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FOR SALE: PIECES OF

BRITAIN/ANDREW C. BROWN

■ To her supporters, Margaret Thatcher is bent on "rolling back the frontiers of the state." Opponents say she's "selling off the family silver to pay the butler's wages." In either case, the Prime Minister is taking a turn at unmixing the mixed economy by selling off state-owned businesses. Her plans for future sales are so extensive that she'll almost certainly be looking for overseas investors to get in on the action.

To the entrepreneurially inclined, the nationalized industries seem a rich lode of assets and business possibilities. Under government ownership, however, they're collectively a drag on the British economy. They account for more than 10% of Britain's gross domestic product, but their average return on capital over the past decade was approximately zero. Since World War II they've swallowed up capital write-offs and grants equivalent to some $60 billion at current prices. The damage to Britain's competitiveness goes far beyond those direct losses. Take the coal connection, for example. The National Coal Board tolerates overmanning and operating inefficiencies that make it a high-cost producer by world standards. The Coal Board's major customer is the state electricity industry, which patriotically eschews all but a token amount of cheap imported coal and burns mostly the expensive domestic stuff. It then chills the rest of the economy with overpriced power.

THROUGHOUT the 1970s, Conservative and Labor governments alike agonized over how to get the nationalized industries to operate with some sort of efficiency. Those deliberations culminated in a set of guidelines produced by the Labor government's Treasury in 1978 and still in force. They provide for the setting of targets for capital needs, return on investment, productivity—and even pricing for operations not directly subject to competition. In selling off state industries, the Thatcherites substitute market forces for those bureaucratically administered targets.

Tories call this "privatization." Laborites call it "piratization." According to the polling organization Market & Opinion Research International, British public opinion shifted against nationalization in the mid-1970s and remains strongly negative. But that hasn't shaken the Laborites' ideological commitment to central control of the economy or lessened their deep mistrust of market forces. In the recent election the Labor party called for extending state control to such virgin territory as the electronics and pharmaceuticals industries. The new third force in British politics, the alliance of the Social Democratic and Liberal parties, has staked out the middle ground. The alliance favors letting nationalized industries operate as if they were private sector companies, but doesn't attach much importance to the question of who should own them.

The promised long-term payoff from privatization is a more competitive economy, less subject to the numbing influence of the state, less inclined to misallocate resources. Privatization can also bring an immediate payoff: a one-shot dose of funds when the government sells off a state enterprise. Some of Thatcher's critics insist that privatization is a cynical revenue-raising exercise; the government is forever explaining that the point is not simply to haul in money. But while Thatcherites don't explicitly link the two, the need for cash does abet the ideological urge to shrink the state.

The Thatcherites have not just talked about privatizing—they have actually done some. Over a two-year span beginning in early 1981, they moved five sizable companies into the private sector by selling shares to

High-cost coal *from government-owned mines makes for high-cost electricity from government-owned power plants like this one near Nottingham. That drags on the economy.*

PHOTOGRAPHS BY GRAHAM FINLAYSON

the public. The five, in order of liberation:

▶ British Aerospace, manufacturer of aircraft, missiles, and space systems.

▶ Cable & Wireless, operator of telecommunications services in numerous segments of the old British Empire.

▶ Amersham International, producer of radioactive materials for research and for medical or industrial use.

▶ Britoil, producer of oil and gas, mostly in the North Sea.

▶ Associated British Ports, owner and operator of port facilities.

The government got out of Amersham completely, selling 100% of the shares. With the others, the government still owns 45% to 49%. Sales of stock in the five companies brought the Treasury about $1.5 billion. In addition, National Freight Co., a trucking and warehousing outfit, was sold to its management and employees in early 1982 in a leveraged buyout.

All six outfits were profitable at the time they were privatized—that's why they were salable. It's too early to tell how well they will perform after liberation, but the early signs are generally positive. Most have reported gains in profits. The notable exception is British Aerospace, hurt by write-downs associated with its non-military business, which includes the troubled Airbus.

Shares of the privatized companies have performed well, all in all, and some investors who got in early had reason to be glad. British Aerospace, Cable & Wireless, Amersham, and Associated British Ports went public in conventional fixed-price offerings. In each case the shares zoomed in the aftermarket, bringing investors splendid capital gains and bringing the government opprobrium for selling its assets too cheaply.

For Britoil the government structured the offering to capture any windfall gains for itself: the deal was a public tender offer in which investors could submit bids at or above a minimum price. As events proved, the government pitched the minimum too high; investors subscribed for only a third of the offering. The underwriters had to take up the rest, and the shares went into a free fall in market trading. "We're prone to criticism of our share offerings," says a government official. "Luckily, we've been wrong in both directions." Britoil's shares have recovered from their initial slide and are now above the original offering price. So are the other issues—helped, to be sure, by the buoyant U.K. equity market.

That shares of the privatized companies are faring well suggests that investors are betting against a replay of Britain's only major experience with privatization before the Thatcher years. In 1951 the Conservatives privatized the steel industry, and in 1967, after years of threatening to do so, the Labor government renationalized. The Laborites now threaten to renationalize—"without gain" to investors—whatever the Thatcher government denationalizes. But according to security analysts in the City of London, the market considers Labor's chances of forming a future government so remote that the discount the companies carry because of the threat is close to zero.

Besides privatizing those six companies, the government has unloaded bits and pieces of some others. British Railways, for example, has sold 21 of its 25 hotels and has spun off its Hovercraft operation into a joint venture with a private company. Still, Thatcherites have made only a dent in the state's portfolio. They haven't managed to extricate the state from coal, steel, autos, and a variety of other commercial activities that free-market logic dictates it shouldn't be in. "We got out of the easiest things first," admits a Treasury man. "We didn't get into the heartland of the public sector."

The route to the heartland bogs down even in Thatcher's own Cabinet. It is up to Cabinet ministers to promote privatization plans for the industries in their departments, and as one veteran of ministerial deliberations says, "It takes an unusual combination of imagination and will. Often, those ministers with imagination are airy-fairy, and those with will are narrow, blunt, and ineffective." No minister, moreover, wants to get blamed for creating unemployment. As that Treasury man puts it, "There'd be a lot of political difficulties if the week after you sold something, everyone was made redundant. The government can't make business decisions the way a conglomerate can."

Any move toward privatization requires a measure of cooperation from the nationalized industry's chairmen. Such men ordinarily work under contracts and enjoy some degree of autonomy. Though they are often recruited from the private sector, they can be downright hostile to privatization.

Headed across the Channel, *cars drive aboard a Sealink ferry operated by government-owned British Railways. That organization has been selling off nonrail businesses, and Sealink is next.*

PERHAPS the most surprising aspect of privatization, then, is that it has moved forward at all. "It's sort of like a horoscope," says a government official. "All the stars and planets have to be in the right place." What sometimes nudges the heavenly bodies into line are forces emanating from the Treasury. While not directly responsible for nationalized industries, the Treasury holds sway over them as a kind of financial policeman. With a couple of exceptions, each industry negotiates its capital budget and working capital needs with the government and estimates the gap, if any, between those requirements and internal cash flow for the year ahead. By committing themselves each year to the amount of that gap, which is called the external financing limit, the industry chairmen put on a financial straitjacket that few private sector executives have to tolerate. If cash flow turns out to be less than expected—as a result of a strike, for in-

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Pumping oil *is one of the numerous state activities Thatcherites want to off-load. A half-interest in this oil field in Dorset belongs to British Gas, which is in oil production and appliance retailing as well as natural gas.*

A proud emblem *proclaims that this British Airways Boeing 747 at London's Heathrow Airport has Rolls-Royce engines. The Thatcher government wants to sell British Airways, Rolls-Royce, and possibly the airport as well.*

stance—an industry can't increase its borrowing without the ultimate approval of the Treasury. If an unforeseen investment opportunity presents itself, the industry can't spend in excess of its external financing limit without permission.

The Treasury takes a miserly interest in the nationalized industries' external financing requirements because in recent years they have accounted for 20% to 30% of Britain's budget deficit. The miserliness has advanced the cause of privatization. According to some observers, Sir Peter Parker, the recently retired chairman of British Railways, had long considered disposing of various nonrail operations such as hotels, but moved in a hurry when the Treasury reduced his access to outside money. Observes a Transport Department official: "It's a rather blunt instrument, the external financing limit. But that's one of its great merits."

Financial pressures can drive a recalcitrant nationalized industry to accept Adam Smith's invisible hand as the only feasible alternative to the Treasury's tight fist. A notable example is Britoil. The Thatcherites came to office with high hopes of selling off the state's North Sea oil business, but the managers of Britoil's predecessor company, British National Oil Corporation, strongly resisted the idea. As a profitable, cash-generating operation, BNOC was afflicted with a negative external financing limit; that is, the Treasury took money out of the company instead of putting money in. Strapped for funds to finance a costly exploration and development program, BNOC found that the only way to pursue its expansion plans was to get out of the public sector. With the cooperation of a new Thatcher-appointed chairman, the government sold off 51% of Britoil's shares last fall for some $820 million in the biggest privatization to date.

A privatization venture slated for next fall will dwarf the government's earlier moves—the public sale of 51% of British Telecom, the telecommunications giant. City analysts expect the shares to bring some $6 billion. The decision to sell follows recent efforts to deregulate the industry. Under legislation passed in 1981, the government separated British Telecom from the Post Office, opened the telephone network to increased use by outside communications companies, and removed Telecom's monopoly privileges in marketing and maintaining customer equipment.

The government also granted a start-up venture, Mercury Communications, a license to provide competing phone service—data transmission as well as voice. Mercury has begun providing microwave telephone service to business customers in London. Legislation expected to become law next spring calls for a private British Telecom operating under the supervision of a new authority, the Office of Telecommunications. Among its many duties, Oftel, as it's known, will promote competition—among Telecom, Mercury, and cellular-radio and cable-TV outfits—and represent the interests of consumers in the pricing and quality of phone service.

Another big outfit in for some privatizing is British Gas, much to the distress of its chairman, Sir Denis Rooke. Sir Denis presides over a vast and flourishing business that owes much of its success to its ability to sell natural gas at bargain rates compared with oil and electricity. Much of the gas supply comes from North Sea producers under long-term contracts that established British Gas as monopoly buyer and effective price-setter. Along with selling gas to households and businesses, British Gas engages in oil and gas exploration and production, and it retails gas appliances through some 900 showrooms. Sir Denis strongly favors maintaining British Gas as a single, integrated business; the Thatcherites see plenty of scope for breaking it up.

UNDER AN ACT passed last year, British Gas lost its status as monopoly buyer of North Sea gas and its transmission network was converted into a common carrier. Big industrial gas customers are now free to negotiate supply contracts directly with producers. Over Sir Denis's objections, the Thatcherites are also trying to get British Gas out of the oil business. The company appears close to selling its half interest in a major onshore field to a consortium of small British oil companies for a reported $240 million. British Gas's remaining oil interests consist of stakes in several North Sea oil fields and exploration licenses. The Energy Department is debating whether to sell those assets off piecemeal or vest them in a new company whose shares could be sold on the stock market. Without taking account of any liabilities the new company might carry, the London securities firm de Zoete & Bevan values its assets at over $800 million.

The remaining big share offering expected from the Thatcher government in the near future is British Airways. With perverse timing, the government first announced its plan to sell shares in 1979, just before the airline went into a recessionary tailspin that has left it with a negative net worth of $330 million. Under new management, British Airways has reduced its fleet, cut its staff to 37,000 from over 55,000, and begun to show a profit. Says Chief Executive Colin Marshall: "By September or October of next year we will be delivering a sufficient stream of profits to be able to support privatization." To sell it off any time soon, the government will have to restructure the balance sheet with a shot of capital. Alternatively, the government could wait for the company to build up retained

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ORGANIZATION	What it does	Revenues millions	Net income millions	Assets millions	What government wants to do
ELECTRICITY COUNCIL	Supplies electric power in England and Wales	$15,353	$554	$53,834	"Attract private capital" into the industry
BRITISH TELECOM	Virtual monopoly on telecommunications	$10,657	$610	$16,251	Sell 51% to private sector
BRITISH GAS	Distributes natural gas	$9,957	$315	$20,137	"Attract private capital" into the industry, sell company's oil interests
BRITISH STEEL	Largest steel producer in U.K.	$5,399	($1,452)	$5,170	Transfer "substantial parts" to private sector
BL	Manufactures automobiles, trucks, buses	$5,374	($512)	$3,730	Transfer "substantial parts" to private sector
BRITISH RAILWAYS	Operates national rail network	$4,927	($304)	$3,142	Sell Sealink shipping subsidiary
BRITISH AIRWAYS	Major international airline	$4,172	$129	$2,232	Transfer to private sector
ROLLS-ROYCE	Manufactures engines (not automobiles)	$2,612	($234)	$2,008	Transfer to private sector
BRITISH SHIPBUILDERS	Builds and repairs ships, manufactures marine engines	$1,826	($214)	$949	Transfer "substantial parts" to private sector
NATIONAL BUS	Operates bus lines	$1,184	$29	$590	Attract "substantial private capital" into company
ROYAL ORDNANCE FACTORIES	Manfactures arms, armored vehicles, ammunition	$750	$147	$487	Permit entry of private capital through joint ventures or equity ownership
BRITISH AIRPORTS AUTHORITY	Owns and operates seven airports	$474	$35	$1,489	Transfer "as many as possible" to private sector

The Thatcher Denationalization Drive Has Lots of Targets

These 12 government-owned organizations are the denationalizers' main targets. The Thatcherites have publicly announced intentions of selling them, selling parts of them, or at least exposing them to competition from the private sector. Notably absent is the National Coal Board, which would rank fourth in revenues if it were on the list. The government has not said anything about privatizing coal, and presumably considers that a hopeless cause. Rolls-Royce manufactures marine and industrial engines as well as aircraft engines, but not Rolls-Royce automobiles—they're made by Vickers, mainly a manufacturer of industrial equipment. The figures in the table are for each organization's most recent fiscal year. They are stated on a historical-cost basis for all except electricity, gas, and airports, which use current-cost accounting.

earnings, but that would probably postpone the sale until long after airline stocks hit their cyclical peak. Says one government veteran: "For Christ's sake, let's privatize it now before something else goes wrong."

WHERE ALL the investors will come from to buy all the equities the government wants to sell is a matter of intense speculation in the City. So far the government has not needed to look to foreign investors to buy shares of privatized companies—the British market was able to absorb the offerings. But now bigger offerings are in prospect. The $6 billion that the British Telecom offer may bring in represents an amount roughly equal to the total volume of money expected to flow into new equities on the London market in all of 1984. Lest the government crowd out other new issues—including its own—it will likely pitch some of British Telecom's shares on overseas markets. As for British Airways, Colin Marshall reports: "We've been getting a tremendous amount of interest from Wall Street. Virtually every one of the big firms has been waltzing around here of late."

On the manufacturing side of the public sector, though, privatization holds little promise of large asset sales any time soon. Says Norman Lamont, who as minister of state in the Department of Trade and Industry oversees many of the public sector's biggest losers: "Most of these companies are in a controlled receivership." The only one the Thatcherites are committed to privatizing in its entirety is the engine builder Rolls-Royce, which could remain in the red for a few more years before its aircraft engine business picks up. "We hope to privatize it in the life of this Parliament," Lamont says.

In other state-owned industrial companies, the government is looking for salable pieces. "There's no part of British Steel I wouldn't sell on behalf of the corporation, if I could find the buyers," Lamont says. British Shipbuilders' sole profitable business, the warship division, "can be sold and will be sold," he adds. At the automaker BL, Lamont says, the profitable Land Rover and replacement parts businesses will go, along with the newly revitalized Jaguar operation.

Those sales would leave a rump of unprofitable industries—motor vehicles, ships, coal, steel—serving competitive markets from within the public sector. To privatize them further might amount to scrapping them. As Lamont says, "You don't simply bankrupt state industries employing masses of people." On that daunting point, the views of Thatcherites and Laborites converge.

■ The Thatcher government's valiant efforts to transfer nationalized enterprises to the private sector have already succeeded better than anyone would have been likely to predict a few years ago. To some extent, it seems, you *can* turn the clock back after all. But the most impressive lesson of the privatization adventure is how nearly impossible it is to unload bulky, unprofitable industries once they have been nationalized. Yet nations still succumb to nationalization fever—France and Mexico are among the recent victims. Governments tempted to nationalize would do well to note that the British government seems doomed to go on unprofitably mining coal, producing steel, manufacturing cars, and building ships, even under Margaret Thatcher. ■

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COMPANIES/PETER NULTY

ROSS PEROT'S RAID ON WASHINGTON

■ For years Electronic Data Systems Inc., the computer services company founded in Dallas by H. Ross Perot, avoided doing business in Washington. Too much bureaucratic waffling and too little profit, thought Perot. But the billionaire and sometime rescuer of failed brokerage houses and Iranian hostages has changed his mind. He is now banking on federal contracts to make his company the industry leader.

Washington is embarked on a massive procurement binge to install new computer systems or modernize obsolete ones in the armed forces, the Postal Service, the Social Security Administration, and other government agencies. The largest projects, called mega-contracts, could each provide victorious bidders with revenues of more than a billion dollars over the life of the contracts, usually five years or more.

IF PEROT CAN CAPTURE a chunk of the federal market, he may soon realize his dream of making EDS the largest and most profitable company in the $20-billion-a-year computer services industry. In the fiscal year that ended June 30, EDS had $652 million in revenues, third behind Automatic Data Processing Corp., with revenues of $753 million, and Computer Sciences Corp., $695 million. EDS earned $58.6 million, second only to Automatic Data Processing's $64.5 million; Computer Sciences earned $17.9 million.

EDS is closing in fast on its competitors. It has added 25% a year to revenues and earnings since 1976. The company, which got its start primarily by processing health insurance claims for Medicaid and Blue Cross/Blue Shield, is expanding rapidly into banks, savings and loan institutions, and credit unions. Since opening a Washington office in 1979, EDS has built up a business in government contracts that brought in $150 million last year. Automatic Data, by contrast, mainly processes payrolls and other information for small to medium-size companies, and the recession has cut its annual growth to just over 11% from a rate during the 1970s of almost 22%. It has yet to bid on any large government contracts. Computer Sciences, which does most of its business with the government, is growing about 10% per year. For EDS, winning four or five mega-contracts could mean the difference between settling for a three-way tie or becoming the dominant power in data services. There's not much doubt in Perot's mind about the outcome. "This," he muses happily, "is the too-good-to-be-true era of EDS."

EDS's run for the No. 1 spot hasn't gone unnoticed in the financial community, where Perot is enjoying something of a renaissance. EDS was popular on Wall Street in the late 1960s; its stock sold for $41 per share (after adjusting for splits) at the old peak in 1970. But Perot's image was tarnished in 1974 by his failed attempt to salvage two large customers, the brokerage houses of du Pont Glore Forgan Inc. and Walston & Co. When they went under, they took $60 million of Perot's personal fortune with them. Soon after, EDS lost several major insurance-processing contracts, earnings leveled off, and the stock fell to $2.75 a share. With EDS on the move again, the stock is back up to around $39 a share, which is 37 times earnings—among the highest multiples in the industry.

Although a relative newcomer to the federal market, EDS has strong and, some might say, unusual qualifications. The mega-contracts on which Perot has set his sights call for connecting far-flung government data

In a spanking new computer center *at Fort Belvoir,*

RESEARCH ASSOCIATE *Royce D. Wolfe*

Virginia, a soldier operates a keyboard of Viable, a $656-million computer system EDS is putting together for the Army.

bases and computer terminals into complex networks, a process called systems integration, which is an EDS specialty. Moreover, Perot has always been a demon for results. His technique, says Mort Meyerson, EDS's president, is "to focus on a goal and pursue it beyond human endurance."

His goals are rarely modest. In 1979 Perot sent a team of EDS executives, headed by a hastily recruited former Army commando named Arthur "Bull" Simons, into Iran during the Khomeini revolution to free two EDS executives who had been imprisoned without charge. The team succeeded when Simons's lieutenant, an Iranian employee, incited a mob to storm a prison as if it were the Bastille, freeing 13,000 prisoners, EDS men included. "It was the largest jailbreak in history," boasts Perot. Later Perot invited thriller writer Ken Follett to write an official account of the mission, entitled *On Wings of Eagles*. The tale, which came out in September, quickly became as common as button-down collars in EDS's staid headquarters, and now it's on the best-seller list.

Perot, 53, looks to his employees—troops might be a better word—to share his sense of dedication. About 20% of EDS trainees' time is spent being indoctrinated in a corporate culture with overtones of paramilitary discipline. Conservative dress is required, tassels on shoes and beards on chins are forbidden. In a code of ethics which they sign,

PHOTOGRAPH BY ALEX WEBB—MAGNUM

Campaigning for federal business, *EDS President Mort Meyerson (left) and Chairman H. Ross Perot are out to mix patriotism with profit.*

employees promise to conduct themselves "in the center of the field of ethical behavior, not along the sidelines." Use of illegal drugs, drinking on the job, and discussing one's salary with fellow employees are causes for immediate dismissal. So too is the pilfering or unauthorized use of office paraphernalia. A small ashtray in the lobby of the insurance division has this warning taped to its bottom: "If you are caught with this ashtray in your office, you will be automatically terminated." A joke, yes, but a telling one.

WHILE PEROT'S STYLE and exploits have endeared him to the military, EDS was still an underdog when the first government mega-contract came up for bid in 1981. Project Viable, as it is called, is an Army program to replace outmoded IBM mainframe computers doing administrative record-keeping chores on 47 Army bases around the country. The favored bidder was a team headed by Computer Sciences with IBM as a subcontractor. Their plan was simply to replace the old IBMs with newer, more powerful ones. But EDS, with Amdahl as a subcontractor, proposed putting smaller computers on each base and connecting them to five huge regional data-crunching centers, in a network similar to the one EDS uses to process data for its commercial customers.

EDS's system is less costly than Computer Sciences', and the networking plan provides backup for any base whose computers malfunction. So in April 1982, the Army awarded EDS the ten-year contract for $656 million. With probable additions and expansions, the deal could grow to over $1 billion. Last year Viable contributed $43 million to EDS revenues. This year those revenues will grow to $60 million, almost half of EDS's federal business. Now a front-runner in the mega-contract game, EDS is the lone contestant for a project to computerize the naval logistics command, a contract worth roughly $400 million over eight years. (Two other potential bidders, Honeywell and Sperry, chose not to participate because they couldn't meet the contract's schedule.)

When EDS won Viable it broke new ground for the computer services industry. Historically, computer manufacturers such as IBM, Burroughs, Sperry, and Honeywell have been the prime contractors, while programming experts sat in the back seat as subcontractors. Viable was the first major federal data-processing contract with a software and services company as the prime contractor.

Gary Fernandes, 40, EDS's vice president in charge of federal operations, is quick to point out that service companies can pick and choose from the best equipment in the market, while computer manufacturers working as prime contractors favor their own products. A software company may also be able to move faster, and may have an edge in persuading a hardware maker to stretch its own idea of what it can accomplish.

In bidding for Viable, for example, EDS linked together four giant IBM 3080 series mainframes for a demonstration. IBM didn't believe these computers could be joined into a network. Perot spent days in Washington egging his team on in its round-the-clock sessions to prepare the demonstration for Navy brass. As the deadline grew near, Perot and his executives badgered IBM repeatedly for assurances that the machines would be delivered on time. The demonstration went off as planned, and the Navy is expected to announce its decision by the end of the year. Meantime Perot has shifted his attention to winning a new Postal Service project called Prism, a network of point-of-sale terminals to dispense stamps, money orders, and the

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Uncle Sam's Big Data Deals

The data-processing projects above are the ten largest listed in the five-year plans of the various federal agencies and departments. The wide ranges of possible costs reflect both the unpredictable expenses of software development and the agencies' bargaining positions in the budget process.

like in post offices around the country. Possible cost: $3 billion.

Not everyone thinks doing business with the government is a great idea for EDS. Sandra Kraus, a security analyst with Kidder Peabody & Co., estimates the pretax profit on Viable will be 12% of sales at most. "The EDS average is more like 14%, and that could mean federal projects will be a long-term drag on earnings," she fears. Kraus believes there is greater potential in the financial services market, where EDS is already expanding by 25% to 30% a year. Or, she suggests, EDS might earn more pursuing the industrial giants of the FORTUNE 500 than chasing after huge government agencies.

MEYERSON ADMITS that government contracts could thin EDS's margins somewhat. But he argues that they also promise steadier earnings since they will keep the company busy during cyclical downturns in other markets. Moreover, he claims, profit margins are not an accurate gauge of earnings. A good chunk of EDS's federal business so far has come from cost-plus contracts, in which the government typically pays for most of the new facilities required. While the return on sales might be lower, the return on assets is almost as good and in some cases better than it is on commercial deals. Meyerson won't reveal what those returns have been, but EDS's average return on assets is 16% (and its return on shareholders' equity is 25.3%).

Profit margins are apt to become more important as the government moves away from cost-plus contracts in favor of more long-term, fixed-price deals like Viable. Washington has finally come to realize that because cost-plus contracts provide the contractor with no incentive to keep costs down, they cost too much.

But Meyerson has an answer for that too. Under fixed-price contracts, the supplier who can take advantage of the experience curve will steadily increase profit margins over the life of the contract. And EDS has compiled an exemplary record of boosting productivity. Since he took over the day-to-day operations from Perot in 1979, Meyerson, 45, has raised pretax profits from 11% to 14% of sales through a combination of picking lucrative market niches and increasing the output of EDS's technical staff. By Meyerson's reckoning, those people are 103% more productive now than in 1979. Meyerson accomplished this feat primarily by providing the staff with more computer power for designing and programming. He also gave them individual terminals and more privacy—programmers and engineers now work in partitioned cubicles instead of an open bullpen.

Meyerson spares no expense in hiring the kind of people who can become more pro-

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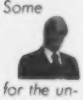

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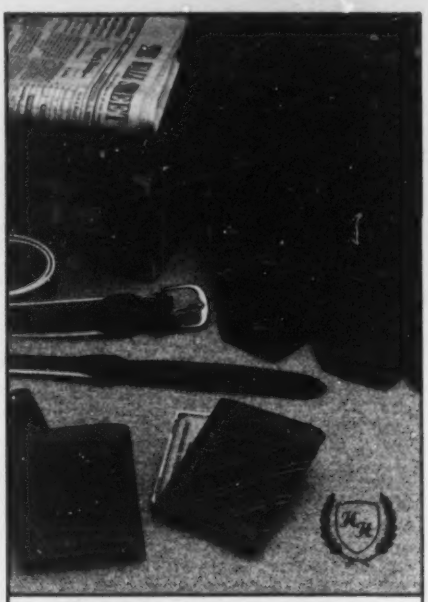
ductive. Last year the company trained about 700 new recruits at a cost of $40,000 each (trainees are required to pledge that they will pay back the costs if they leave the company within three years of completing their courses.) According to Stephen McClellan, a security analyst with Salomon Brothers, the company pays about 25% more than the average market salary.

THE GOVERNMENT should also benefit from the contractors' higher productivity when contracts come up for renewal—assuming bureaucrats get the point. One of EDS's earliest federal jobs was a contract to process national flood insurance claims administered by the Federal Emergency Management Agency. This spring, after 4½ years of EDS management, the contract was reopened for bidding, a normal procedure that didn't reflect on EDS's performance. EDS figured it could lower its previous fee 15% by substituting better programs and more computing power for 94 EDS personnel. But FEMA awarded the contract to EDS's competitor Computer Sciences because, says a FEMA official incredulously, "We could not believe EDS could do it with so few people. We just didn't believe it." His skepticism could cost taxpayers more than $5 million a year. Computer Sciences' bid was $22 million, EDS's $16.7 million.

Sitting in a large rocker in his office surrounded by mementos (including Bull Simons's pistol, which he is having mounted in Lucite), Perot was asked recently why he wants to try his luck in Washington. He replied, "We can do a great service to our country there." Coming from another man, that might be mere grandiloquence. But Perot has a habit of casting himself in the role of cavalry officer riding out to save the wagons. In 1969 he spent $2 million to fly Christmas presents to POWs in North Vietnam. (The Vietnamese denied permission to land.) Then came his Wall Street misadventure, followed by his Iranian success. In his private life, Perot is serving on committees in his home state of Texas to stem the flow of illegal drugs and upgrade public education. Felix Rohatyn, senior partner in Lazard Frères and a new member of the EDS board, says: "Ross has an extraordinary instinct to go out and rescue things. He is also a shrewd businessman, but I think his instinct to rescue is greater."

■ The government's move to fixed-price contracts should benefit taxpayers by gaining better service at lower cost. It could also turn EDS into the biggest of the computer service companies—maybe the IBM of the business. ■



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